

Message Text

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PAGE 01 KARACH 00022 040936Z

13

ACTION NEA-12

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01 IGA-02

/158 W

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P 040905Z JAN 74

FM AMCONSUL KARACHI

TO SECSTATE WASHDC PRIORITY 7747

INFO AMEMBASSY ISLAMABAD PRIORITY

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJ: RUMORS CONCERNING POSSIBLE DEMONETIZATION LARGER PAK
BANK NOTES

REF: A. KARACHI 0019

B. KARACHI 0021 (NOTAL)

BEGIN SUMMARY. RUMORS CONCERNING DEMONETIZATION 100 RUPEE
NOTES WERE CIRCULATING WIDELY IN KARACHI JANUARY 3 FOLLOWING
MASSIVE WITHDRAWALS ON JANUARY 1 AND 2 OF "BLACK" MONEY
PREVIOUSLY HELD IN FICTITIOUS NAME ACCOUNTS BEFOREBANK
NATIONALIZATION. END SUMMARY.

1. RUMOR HAS SPREAD RAPIDLY THROUGHOUT KARACHI BUSINESS
COMMUNITY DURING COURSE OF JAN 3 THAT GOP PLANS DEMONETIZE
AND CALL IN 100 RUPEE NOTES IN EXCHANGE FOR NOTES OF LOWER
DENOMINATION WITH RESTRICTIONS OR PENALTY ON NOTES ABOVE
CERTAIN AMOUNT FOR WHICH NO LEGAL ACCOUNTING CAN BE MADE.

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PAGE 02 KARACH 00022 040936Z

THIS RUMOR HEARD BY CONGENOFFS FROM VERY WIDE RANGE OF SOURCES

BOTH U.S. AND PAK, INCLUDING VICE PRESIDENT FNCB. DEMONETIZATION RUMOR BASED ON COMMON KNOWLEDGE THAT VERY LARGE SUMS "BLACK" FUNDS WERE WITHDRAWN FROM FICTITIOUS-NAME ACCOUNTS IN NATIONALIZED BANKS AND THAT HOLDERS THESE FUNDS HAVE NO IMMEDIATE POSSIBILITY COMPLETELY DISPOSING OF THEM ON COMMODITY AND GOLD MARKETS.

2. AS EXAMPLE TYPIFYING PRESENT SITUATION ONE PAK BUSINESSMAN SAID UNNAMED ACQUAINTANCE HAD WITHDRAWN SEVERAL MILLION RUPEES FROM ACCOUNTS AND WAS ATTEMPTING PURCHASE COMMODITIES, BUT ONLY ABLE MAKE PURCHASES TOTALING ONE LAC (RS. 100,000). NEWSPAPER REPORTS ON JANUARY 4 CONCERNING FRESH SPURT IN GOLD PRICES IN KARACHI BY RS. 60 TO NEW HIGH OF RS. 580 PER TOLA ARE FURTHER INDICATION INTENSE EFFORT FIND OUTLET FOR "BLACK" CURRENCY HOLDINGS.

3. AT BANKS, DEMONETIZATION RUMOR HAS RESULTED IN RUSH TO EXCHANGE 100 RUPEE NOTES INTO LOWER DENOMINATIONS AND STACKS 100 RUPEE NOTES WERE PILING UP ON COUNTERS JAN 3. BUSINESSMEN BELIEVE THAT IF ANOTHER DEMONETIZATION IS TO TAKE PLACE, AS WAS CARRIED OUT FOLLOWING SPLIT-OFF OF EAST PAKISTAN, PRESENT LONG 3-DAY EID AL AZHA WEEKEND, WHEN BANKS AND SHOPS CLOSED, WOULD BE IDEAL TIME FOR GOP TO PULL IT OFF.

COMMENT. DESPITE WIDESPREAD RUMORS CONGEN TENDS AGREE WITH U.S. BANKERS HERE WHO BELIEVE ON BASIS THEIR OWN JUDGMENT AND HIGH LEVEL CONTACTS THAT DEMONETIZATION NOT IN CARDS FOR PRESENT. RUMOR, HOWEVER, AT VERY LEAST, IS CLEAR INDICATION CURRENT UNCERTAINTY AND FEAR WHICH EXISTS IN BUSINESS COMMUNITY FOLLOWING BANK, OIL AND SHIPPING NATIONALIZATION. TIGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, MONETARY GOLD, RUPEE, BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974KARACH00022
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: KARACHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740162/aaaacgqo.tel
Line Count: 93
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. KARACHI 0019
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 22 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 AUG 2002 by shawdg>; APPROVED <29-Aug-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RUMORS CONCERNING POSSIBLE DEMONETIZATION LARGER PAK BANK NOTES
TAGS: EFIN, PK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005